

**FINANCIAL AUDITS OF THE
STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
FOR THE YEARS ENDED JUNE 30, 2002 and 2001**

February 21, 2003

Comptroller
State of Hawaii
Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawaii 96813

Gentlemen:

Herein we submit our report on the financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund, as of and for the years ended June 30, 2002 and 2001. Our audits were performed in accordance with the terms of our contract with the State of Hawaii.

We would like to express our appreciation to the personnel of the State Motor Pool Revolving Fund, and in particular to Mr. George Okano and Mr. Hugh Sonoda, for the assistance and cooperation we received during the course of our audits.

Sincerely yours,

ENDO & COMPANY

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

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REPORT ON THE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Comptroller
State of Hawaii
Department of Accounting and General Services

We have audited the accompanying statements of net assets of the

STATE MOTOR POOL REVOLVING FUND (Fund),

as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the State of Hawaii, Department of Accounting and General Services. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements present only the accounts of the Fund and are not intended to present the financial position and results of operations of the State of Hawaii, or any other segment thereof in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note (1) to the financial statements, the Fund adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001.

The Fund has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2002 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 21, 2003
Honolulu, Hawaii

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

STATEMENTS OF NET ASSETS

June 30, 2002 and 2001

	<u>ASSETS</u>	
	<u>2002</u>	<u>2001 (As Restated)</u>
CURRENT ASSETS		
Cash in State Treasury (Note 1)	\$ 2,909,503	\$ 2,764,231
Motor vehicle rental receivable, net	176,423	217,925
Due from other funds	8,115	-
Inventories (Note 1)	<u>6,305</u>	<u>11,263</u>
TOTAL CURRENT ASSETS	<u>3,100,346</u>	<u>2,993,419</u>
NONCURRENT ASSETS		
Capital assets, at cost, less accumulated depreciation (Notes 1 and 2)	<u>2,176,039</u>	<u>1,788,060</u>
TOTAL ASSETS	<u>\$ 5,276,385</u>	<u>\$ 4,781,479</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 18,031	\$ 51,613
Accrued wages payable	18,852	21,088
Accrued vacation payable (Note 1)	11,153	13,432
Due to State Parking Revolving Fund	<u>14,298</u>	<u>9,713</u>
TOTAL CURRENT LIABILITIES	<u>62,334</u>	<u>95,846</u>
NONCURRENT LIABILITIES		
Accrued workers' compensation payable (Note 3)	8,700	8,700
Accrued vacation payable	<u>80,053</u>	<u>65,249</u>
TOTAL NONCURRENT LIABILITIES	<u>88,753</u>	<u>73,949</u>
TOTAL LIABILITIES	<u>151,087</u>	<u>169,795</u>
NET ASSETS		
Invested in capital assets	2,176,039	1,788,060
Unreserved	<u>2,949,259</u>	<u>2,823,624</u>
TOTAL NET ASSETS	<u>5,125,298</u>	<u>4,611,684</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,276,385</u>	<u>\$ 4,781,479</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Motor vehicle rentals	\$ 1,684,300	\$ 1,559,612
Motor vehicle repairs	<u>214,955</u>	<u>204,959</u>
TOTAL OPERATING REVENUES	<u>1,899,255</u>	<u>1,764,571</u>
OPERATING EXPENSES		
Personnel services	459,510	453,275
Depreciation	516,299	419,716
Gas and oil	237,505	254,368
Repairs and maintenance	134,600	136,897
Special assessment (Note 9)	55,336	-
Others	<u>100,853</u>	<u>94,864</u>
TOTAL OPERATING EXPENSES	<u>1,504,103</u>	<u>1,359,120</u>
INCOME FROM OPERATIONS	<u>395,152</u>	<u>405,451</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income and miscellaneous income	109,136	144,376
Gain/(Loss) on disposition of capital assets	<u>(5,555)</u>	<u>7,187</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>103,581</u>	<u>151,563</u>
INCOME BEFORE TRANSFERS	498,733	557,014
OPERATING TRANSFERS, NET - Equipment and vehicles	<u>14,881</u>	<u>114,544</u>
CHANGE IN NET ASSETS	513,614	671,558
TOTAL NET ASSETS, beginning of year	<u>4,611,684</u>	<u>3,940,126</u>
TOTAL NET ASSETS, end of year	<u>\$ 5,125,298</u>	<u>\$ 4,611,684</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from motor vehicle rentals	\$ 1,725,802	\$ 1,510,050
Receipts from motor vehicle repairs	214,955	204,959
Other receipts	50	-
Payments for personnel services	(449,221)	(455,191)
Payments for gas and oil	(237,505)	(254,368)
Payments for repairs and maintenance	(134,600)	(136,897)
Payments for special assessment	(63,451)	-
Others payments	<u>(124,892)</u>	<u>(71,221)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>931,138</u>	<u>797,332</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest from pooled funds	<u>109,087</u>	<u>144,376</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>109,087</u>	<u>144,376</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(976,902)	(408,475)
Proceeds from disposal of equipment	<u>81,949</u>	<u>74,684</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(894,953)</u>	<u>(333,791)</u>
NET INCREASE IN CASH	145,272	607,917
CASH, beginning of year	<u>2,764,231</u>	<u>2,156,314</u>
CASH, end of year	<u><u>\$ 2,909,503</u></u>	<u><u>\$ 2,764,231</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 395,152	\$ 405,451
Adjustments to reconcile income from operations		
to net cash provided by operating activities:		
Depreciation	516,299	419,716
Miscellaneous income	50	-
(Increase) decrease in assets:		
Motor vehicle rental receivable	41,502	(49,562)
Due from other funds	(8,115)	-
Inventories	4,958	-
Increase (decrease) in liabilities:		
Accounts payable	(33,582)	23,643
Accrued wages payable	(2,236)	833
Accrued vacation payable	12,525	(2,749)
Due to State Parking Revolving Fund	<u>4,585</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 931,138</u>	<u>\$ 797,332</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units.

Background - The State Motor Pool Revolving Fund (Fund) was established pursuant to Act 77, Session Laws of Hawaii 1963 (Section 26-6 of the Hawaii Revised Statutes). The Fund is responsible for providing safe and economical transportation for the personnel of state departments and agencies requiring the use of passenger vehicles in connection with official state business. All monies collected from motor vehicle rentals are used for the acquisition, operation, repair, maintenance, storage, and disposition of all state-owned vehicles assigned to the State Motor Pool.

Basis of Accounting - The Fund is an internal service fund (proprietary fund type) as defined by the Governmental Accounting Standards Board (GASB), which uses the flow of economic resources measurement focus and accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Fund accounts for the rental and maintenance of motor vehicles provided to other state departments or agencies on a cost reimbursement basis.

Use of Estimates - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury (cash pool). The Hawaii Revised Statutes (HRS) authorize the Director of Finance to invest in

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002

and 2001

(1) Summary of Significant Accounting Policies (continued)

obligations of or guaranteed by the U. S. Government, obligations of the State of Hawaii (State), federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Director of Finance pools and invests any monies of the Fund, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies.

For purposes of the financial statements, the Fund considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories - Inventories, principally supplies, are stated at the lower of cost or market with cost being determined by the first-in, first-out method (FIFO).

Capital Assets - Capital assets are defined by the Fund as vehicles, furniture, office and shop equipment with estimated useful lives greater than one year and acquisition costs greater than:

Land, land improvements, infrastructure and buildings	\$100,000
Furniture and shop equipment	5,000
Vehicles	5,000

Capital assets are stated at cost. Donated assets are recorded at their fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation, which would have been charged had the asset been directly acquired by the Fund. The cost of normal maintenance and repairs that do not add to the value or materially extend useful lives are charged to operations as

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies (continued)

incurred. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

Depreciation - Depreciation is computed under the straight-line method over estimated useful lives as follows:

	<u>Useful Lives</u>
Motor vehicles	10 years
Shop and office equipment	5 - 7 years

Vacation Pay - The Fund's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, the employees are paid their vacation allowance in a lump sum. The Fund records all vacation pay at current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Description of Leasing Arrangements - The Fund leases various types of commercial automobiles and trucks on short-term leasing arrangements with other state departments and agencies. Revenue and expenses related to leased equipment are accounted for by the operating method. Under the operating method, aggregate rentals are reported as revenue over the life of the lease and the related expenses are charged to leasing operations when incurred. Leases expire at varying dates within one year.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements - The GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These pronouncements established new financial reporting requirements and a new financial reporting model for state and local governments. The Fund adopted these pronouncements, effective July 1, 2001.

(2) Capital Assets

Capital assets activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001 (As restated)	Additions	Deductions	Balance June 30, 2002
Vehicles	\$ 3,584,229	\$1,027,089	\$ 410,345	\$ 4,200,973
Shop equipment and furniture	53,161	8,497	-	61,658
Total capital assets	<u>3,637,390</u>	<u>1,035,586</u>	<u>410,345</u>	<u>4,262,631</u>
Less accumulated depreciation for:				
Vehicles	(1,796,914)	(514,805)	(278,535)	(2,033,184)
Shop equipment and furniture	(52,416)	(992)	-	(53,408)
Total accumulated depreciation	<u>(1,849,330)</u>	<u>(515,797)</u>	<u>(278,535)</u>	<u>(2,086,592)</u>
Total capital assets, net	<u>\$ 1,788,060</u>	<u>\$ 519,789</u>	<u>\$ 131,810</u>	<u>\$ 2,176,039</u>

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(3) Workers' Compensation Reserve

The Fund is fully self-insured for workers' compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the years ended June 30, 2002 and 2001, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of \$8,700 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2002 and 2001.

(4) Automobile Insurance

The State self insures its automobile no-fault coverage and purchases excess liability insurance for its entire automotive fleet. Coverage for collision, fire, theft or comprehensive loss is at the discretion of the state departments and agencies to which vehicles are assigned. Uncovered losses are the responsibility of the state departments and agencies to which vehicles are assigned. The Fund transferred approximately \$40,125 and \$51,900 in 2002 and 2001, respectively, to the State Risk Management Revolving Fund which is its pro rata share of the total annual cost based on self-insured claim losses and administrative fees incurred over the number of the Fund's vehicles included in the State's automotive fleet. The automobile liability insurance program is administered by the risk management staff of the Department of Accounting and General Services (DAGS).

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(5) Retirement Benefits

All eligible employees of the Fund are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS issues a comprehensive annual financial report available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(5) Retirement Benefits (continued)

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirement as of June 30, 2002 and 2001, the most recent information available, was approximately \$113,984,000 and \$7,690,000, respectively. The State contributed 100% of its required contributions for 2002 and 2001.

Changes in salary growth assumptions and investment earnings pursuant to Act 100, Session Laws of Hawaii 1999, decreased the June 30, 2002 and 2001 required contributions. The Fund's covered payroll was approximately \$456,994 and \$456,025 in 2002 and 2001, respectively. There were no retirement plan contributions charged to the Fund's operations for the years ended June 30, 2002 and 2001.

(6) Post-Retirement Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(6) Post-Retirement Benefits (continued)

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

Contributions are financed on a pay-as-you-go basis. The Fund's share of the expense for post-retirement benefits for the years ended June 30, 2002 and 2001 was \$21,590 and \$20,413, respectively.

(7) Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of the State's general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the Plan, but does have the duty of due care that would be required of an ordinary prudent investor.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(8) Contingencies

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The Fund's accumulated sick leave pay is based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2002 and 2001, sick leave accumulations were approximately \$437,610 and \$250,600, respectively.

(9) Central Service and Departmental Administrative Expenses

HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by DAGS, based on the ratio of the general administrative service expenses to DAGS's net departmental expenses. As of July 1, 2001, the assessments were reinstated, but there was no HRS Section 36-27 assessment in 2002. The total of the assessment under HRS Section 36-30 was \$55,336 in 2002.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2002 and 2001

(10) Prior Period Adjustment

In July 2001, the Fund adopted the State's capitalization policy for capital assets. As a result, capital asset balances as of July 1, 2000 were adjusted as follows:

Capital assets, as previously reported	\$ 1,805,788
Removal of capital assets, net of accumulated depreciation	<u>(17,728)</u>
Capital assets, as adjusted	<u>\$ 1,788,060</u>

The following details the adjustment to capital assets:

	<u>Balance at July 1, 2001</u>	
	<u>As Reported</u>	<u>As Adjusted</u>
Vehicles	\$ 3,602,128	\$ 3,584,229
Shop equipment and furniture	163,198	53,161
Total capital assets	3,765,326	3,637,390
Less accumulated depreciation for:		
Vehicles	(1,812,531)	(1,796,914)
Shop equipment and furniture	(147,007)	(52,416)
Total accumulated depreciation	(1,959,538)	(1,849,330)
Total capital assets, net	<u>\$ 1,805,788</u>	<u>\$ 1,788,060</u>

(11) Subsequent Event

Subsequent to June 30, 2002, the Fund transferred \$600,000 to the State's General Fund, pursuant to Act 178, Session Laws of Hawaii 2002.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Comptroller
State of Hawaii
Department of Accounting and General Services

We have audited the financial statements of the

**STATE OF HAWAII, DEPARTMENT OF ACCOUNTING AND
GENERAL SERVICES, STATE MOTOR POOL REVOLVING FUND (Fund),**

as of and for the year ended June 30, 2002, and have issued our report thereon dated May 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund's ability to record, process, summarize and report financial data which are consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying report entitled *Communication of Internal Control Over Financial Reporting Related Matters and Prior Year Recommendations-Reportable Conditions*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the management of the Fund, the Department of Accounting and General Services, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

May 24, 2002
Honolulu, Hawaii

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

COMMUNICATION OF INTERNAL CONTROL OVER FINANCIAL
REPORTING RELATED MATTERS AND PRIOR
YEAR RECOMMENDATIONS - REPORTABLE CONDITIONS

PRIOR YEAR'S REPORTABLE CONDITIONS

The following reportable conditions were included in the audit report for the year ended June 30, 2001. They have not been corrected and are included again as reportable conditions.

RECONCILIATION OF ACCOUNTS RECEIVABLE SUBSIDIARY RECORDS

Condition - A computerized accounts receivable subsidiary system has been developed to enter billings and receipts for motor vehicle rentals. However, there is no reconciliation or review of the account balances.

Recommendation - Periodic reviews of the aged accounts receivable trial balance should be made by management.

Status - The Fund's management is periodically reviewing the aged accounts receivable trial balances.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND**

COMMUNICATION OF INTERNAL CONTROL OVER FINANCIAL
REPORTING RELATED MATTERS AND PRIOR
YEAR RECOMMENDATIONS - REPORTABLE CONDITIONS

CONSISTENCY IN PRICING REPAIRS TO NON-POOL VEHICLES

Condition - The Fund currently provides gasoline, oil, maintenance services, and minor repairs for state-owned vehicles not assigned to the State Motor Pool. The policies and procedures of the Fund state that *Rates shall be established and charged to agencies utilizing these services and billed accordingly.* We were informed that outside agencies are charged a mark-up of between 10% to 15% of cost, at the Fund's discretion. Based on our test of billings to outside agencies, we noted that mark-ups were not consistently within the range of 10% to 15% of cost.

Recommendation - The Fund should establish standard prices and/ or a fixed mark-up percentage. Management should also perform periodic reviews of costs to determine the appropriateness of its pricing methodology.

Status -The Fund has established standard prices and/ or a fixed mark-up percentage. However, management should perform periodic reviews of costs to determine the appropriateness of its pricing methodology.